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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended
October 31, 1991

Commission File Number
2-72900-LA

TAPE SPECIALTY, INC.

(Exact name of registrant as specified in its charter)

| California | 95-3007309 |
|---|---|
| (State of other Jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

13411 Saticoy Street, North Hollywood, California 91605
(Address of Principal Executive Offices) (Zip Code)

(818) 786-6111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES _____ NO_____

Common Stock, no par value, shares outstanding at the close of the period covered by this Report (October 31, 1991) 2,805,679.

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AVAILABLE

TAPE SPECIALTY, INC.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

TAPE SPECIALTY, INC.
BALANCE SHEETS

| | October 31, 1991 (unaudited) | January 31, 1991 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 56,440 | $ |
| Accounts Receivable, net allowance for doubtful accts. of 5,000 each year respectively | 351,194 | 325,928 |
| Inventories, at cost | 149,242 | 208,200 |
| Current portion of note rec. from stockholders | | 1,652 |
| Prepaid Expense | 2,810 | |
| Other Receivables | 46 | |
| TOTAL ASSETS | 559,732 | 535,780 |
| Property & Equipment, at cost net of accumulated depreciation | 509,788 | 496,949 |
| Other Assets | 38,175 | 39,949 |
| TOTAL ASSETS | $ 1,107,695 | $1,072,678 |
| **LIABILITIES AND STOCKHOLDERS (DEFICIT)** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities | $ 106,816 | $ 264,550 |
| Accrued Interest | 54,900 | 162,038 |
| Note Payable | 123,489 | 220,751 |
| Current portion of long-term debt | 78,462 | 43,566 |
| Taxes payable | 35,223 | 6,710 |
| TOTAL CURRENT LIABILITIES | 398,890 | 697,615 |
| Convertible Subordinated Debentures | 40,000 | 109,000 |
| Long-Term Debt, net of current portion | 164,369 | 150,756 |
| Deferred Income Tax | | |
| TOTAL LIABILITIES | $ 603,259 | $ 997,371 |
| Stockholders' Equity (Deficit): Common Stock, no par value, 20,000,000 shares authorized, 2,805,679 shares outstanding | 1,353,174 | 1,353,173 |
| Accumulated Deficit | (848,738) | (1,277,866) |
| Total Stockholders' (deficit) | 504,436 | (75,307) |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) | $ 1,107,695 | $ 1,072,678 |

SEE NOTES TO FINANCIAL STATEMENTS

TAPE SPECIALTY, INC.
STATEMENTS OF OPERATIONS
(unaudited)

| | For the Quarters Ended October 31, 1991 | 1990 |
|---|---|---|
| SALES | $ 847,760 | $ 701,978 |
| COST OF SALES | 553,335 | 505,425 |
| GROSS PROFIT | 294,425 | 196,553 |
| SELLING, GENERAL AND ADMINISTRATIVE | 181,331 | 159,034 |
| INCOME FROM OPERATIONS | 113,094 | 37,519 |
| OTHER INCOME (EXPENSE) | | |
| COMMISSION INCOME | | |
| INTEREST AND MISCELLANEOUS INCOME | 24,425 | 574 |
| INTEREST EXPENSE | (18,916) | (29,463) |
| | 5,509 | (28,889) |
| INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS | 118,603 | 8,630 |
| PROVISION FOR INCOME TAX | 11,030 | 2,071 |
| INCOME BEFORE EXTRAORDINARY ITEMS | 129,633 | 6,559 |
| EXTRAORDINARY ITEMS | | |
| Gain from early extinguishment of debt | 104,650 | 11,250 |
| Related Provision for income taxes | (10,486) | (2,700) |

SEE NOTES TO FINANCIAL STATEMENTS

TAPE SPECIALTY, INC.
STATEMENTS OF OPERATIONS
(unaudited)
(CONTINUED)

| | For the quarters Ended October 31, 1991 | 1990 |
|---|---|---|
| CREDIT FROM UTILIZATION OF LOSS CARRYFORWARD | $ 21,516 | $ 4,771 |
| NET INCOME | 201,737 | 20,511 |
| ACCUMULATED DEFICIT, BEGINNING OF PERIOD | (1,081,115) | (1,286,621) |
| ACCUMULATED DEFICIT, END OF PERIOD | ( 879,378) | $(1,266,110) |
| NET INCOME PER SHARE | $ .08 | $ .02 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 2,805,679 | 2,805,679 |

SEE NOTES TO FINANCIAL STATEMENTS

TAPE SPECIALTY, INC.
STATEMENT OF OPERATIONS
(unaudited)

| | For the Nine Months Ended October 31, 1991 | 1990 |
|---|---|---|
| SALES | $2,509,068 | $2,176,794 |
| COST OF SALES | 1,667,212 | 1,566,303 |
| GROSS PROFIT | 841,856 | 610,491 |
| SELLING, GENERAL AND ADMINISTRATIVE | 533,318 | 485,569 |
| INCOME FROM OPERATIONS | 308,538 | 124,922 |
| OTHER INCOME (EXPENSE) | | |
| INTEREST & MISCELLANEOUS INCOME | 50,357 | 9,388 |
| INTEREST EXPENSE | (64,214) | (86,016) |
| | (13,857) | (76,628) |
| INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS | 294,681 | 48,294 |
| PROVISION FOR INCOME TAXES | 27,405 | 11,590 |
| INCOME BEFORE EXTRAORDINARY ITEMS | 267,276 | 36,704 |
| EXTRAORDINARY ITEMS | | |
| GAIN FROM EARLY EXTINGUISHMENT OF DEBT | 174,025 | 11,250 |
| RELATED PROVISION FOR INCOME TAX | (18,483) | (2,700) |

SEE NOTES TO FINANCIAL STATEMENTS

TAPE SPECIALTY, INC.
STATEMENTS OF OPERATIONS
(CONTINUED)
(UNAUDITED)

| | FOR THE NINE MONTHS ENDED OCTOBER 31, 1991 | 1990 |
|---|---|---|
| CREDIT FROM UTILIZATION OF LOSS CARRYFORWARD | 49,599 | 18,290 |
| NET INCOME | 422,817 | 59,544 |
| ACCUMULATED DEFICIT, BEGINNING | (1,161,712) | (1,286,621) |
| ACCUMULATED DEFICIT, END OF PERIOD | (848,738) | (1,266,110) |
| NET INCOME PER SHARE | .15 | .07 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 2,805,679 | 2,805,679 |

TAPE SPECIALTY, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

| CASH FLOW PROVIDED BY OPERATIONS: | FOR THE QUARTERS ENDED OCTOBER 31, 1991 | 1990 |
|---|---|---|
| NET INCOME | $ 208,046 | $ 20,511 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| DEPRECIATION | 25,480 | 25,000 |
| (INCREASE IN ACCOUNTS RECEIVABLE | 80,335 | (107,092) |
| INCREASE IN INVENTORY | (13,161) | 7,978 |
| (INCREASE) DECREASE IN OTHER ASSETS DEPOSITS | (649) | (7,323) |
| INCREASE (DECREASE) IN ACCOUNTS PAYABLE | (48,332) | 26,402 |
| INCREASE (DECREASE) IN INTEREST PAYABLE | 81,300 | (18,150) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 333,019 | 52,674 |
| CASH FLOWS USED BY INVESTING ACTIVITIES: | | |
| ACQUISITION OF PROPERTY AND EQUIPMENT | 38,469 | (22,655) |
| NET CASH FLOWS USED BY INVESTING ACTIVITIES | 38,469 | (22,655) |

SEE NOTES TO FINANCIAL STATEMENTS

TAPE SPECIALTY, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

| | FOR THE QUARTERS ENDED OCTOBER 31, 1991 | 1990 |
|---|---|---|
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES: | | |
| PROCEEDS FROM NEW BORROWINGS | | |
| REDUCTION OF CONVERTIBLE DEBENTURES | (72,000) | (12,000) |
| INCREASE OF LONG TERM DEBT | (43,849) | (86,753) |
| REDUCTION OF OFFICER'S LOANS | | 4,872 |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | 115,849 | (93,881) |
| INCREASE/(DECREASE) IN CASH | 33,473 | 17,947 |
| CASH AT THE BEGINNING OF PERIOD | 22,967 | (41,394) |
| CASH AT THE END OF THE PERIOD | (56,440) | 45,392 |
| ADDITIONAL DISCLOSURES | | |
| CASH PAID DURING THE YEAR FOR: | | |
| INTEREST | 53,864 | 29,463 |
| INCOME TAXES | 11,825 | |

SEE NOTES TO FINANCIAL STATEMENTS

TAPE SPECIALTY, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

| CASH FLOW PROVIDED BY OPERATIONS: | FOR THE NINE MONTHS ENDED OCTOBER 31, 1991 | 1990 |
|---|---|---|
| NET INCOME | $429,128 | $ 59,543 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| DEPRECIATION | 75,640 | 74,999 |
| (INCREASE) IN ACCOUNTS RECEIVABLE | (25,266) | (49,539) |
| PROVISION FOR LOSSES ON ACCOUNTS RECEIVABLE | | |
| (INCREASE), DECREASE IN INVENTORY | 58,958 | (44,905) |
| INCREASE IN PREPAID EXPENSES | 2,810 | 4,321 |
| DECREASE IN OTHER RECEIVABLES | | |
| (INCREASE) DECREASE IN OTHER ASSETS | 46 | |
| DEPOSITS | | |
| (DECREASE) IN ACCOUNTS PAYABLE | (157,734) | (48,728) |
| (INCREASE) DECREASE IN INTEREST PAYABLE | 107,138 | (6,750) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 490,720 | 11,059 |
| CASH FLOWS USED BY INVESTING ACTIVITIES: | | |
| ACQUISITION OF PROPERTY & EQUIPMENT | 88,479 | (77,700) |
| NET CASH FLOWS USED BY INVESTING ACTIVITIES | 88,479 | (77,700) |

TAPE SPECIALTY, INC.

| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES: | 1991 | 1990 |
|---|---|---|
| Reduction of convertible debentures | (109,000) | (12,000) |
| Reduction of long term debt | 13,613 | 143,120 |
| Reduction of officer's loans | | 17,932 |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | (95,387) | (45,392) |
| Increase/(Decrease) in cash | 56,440 | 45,392 |
| Cash at the beginning of year | | |
| Cash at the end of the year | 56,440 | (45,392) |

TAPE SPECIALTY, INC.
NOTES TO FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In April 1981, Tape Specialty, Inc. (successor corporation) was organized under the laws of California. Pursuant to an Agreement of Merger dated May 18, 1981, the successor corporation issued 1,857,143 shares of its common stock in exchange for all the outstanding shares of Tape Specialty, Inc. (predecessor corporation) which was formed and commenced operations in February 1976.

The Company is engaged in the business of duplicating, manufacturing, producing and marketing audio cassette tapes.

Depreciation and Amortization

Depreciation and amortization are provided on the straight-line method over the lives of the related assets as follows:

| | Period |
|---|---|
| Machinery and equipment | 20 years |
| Recording masters | 3-5 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 5 years |

Inventories consist of the following:

| | January 31, 1991 |
|---|---|
| Raw materials | $124,823 |
| Work in process | 18,484 |
| Finished goods | 30,621 |
| Parts & supplies | 34,272 |
| | $208,200 |

For the quarter ending October 31, 1990 inventory has been estimated using the gross profit percentage method.

Inventories are stated at the lower of cost (first-in, first-out) or market.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

Upon the consumation of the Company's intitial public offering of convertible subordinated debentures and common stock purchase warrants in November 1981, the Company received net proceeds in the amount of $1,253,000. The Company used such proceeds to expand its production capacity by leasing an additional 4,700 square feet of manufacturing facilities, to purchase approximately $211,000 of capital equipment, to reduce approximately $376,000 of outstanding debt, to increase inventory tnrough the purchase of cassette casings and tape from various international sources, to make certain leasehold improvements in the amount of approximately $26,000 and for new product development in the approximate amount of $135,000. The anticipated expenditures of a portion of the proceeds from the public offering for marketing and sales development and additional new product development has been deferred until such time as general economic conditions and the availability of additional capital resources permit. The deferral of such additional development has resulted in severe reductions in the rate of the Company's subsequent annual sales increases.

In May 1983, the Company completed an exchange offer with the holders of outstanding Convertible Subordinated Debentures and Common Stock Purchase Warrants whereby such holders were given the opportunity to convert the Debentures ad exercise the Warrants at more favorable rates. As a result of the exchange offer, a total of 1,264 Debentures in the aggregate principal amount of $1,264,000 were converted into 758,400 shares of Common Stock. The reduction in the amount of outstanding Debentures enabled the Company to reduce its outstanding debt by $1,264,000 (representing the principal amount of Debentures converted), and reduce its debt service payments required with respect to the Debentures by approximately 70% in fiscal 1984 from debt service expenses incurred in fiscal 1983. The remaining outstanding Debentures bear interest at the rate of 15% per annum, which represented an interest expense of approximately $77,000 during each of fiscal 1987 and 1986.

Interest on the debentures is payable semi-annually and the Indenture relating to the outstanding Debentures provides for a 30-day grace period with respect to the payment of interest by the Company. The Company is presently in default in the payment of interest in the aggregate of $ 54,900 as of Oct. 31, 1991 on its Convertible Subordinated Debentures. The interest amounts were payable semi-annually beginning at April 30, 1984 through April 30, 1989. The Company's failure to pay such interest amounts constitutes a default under the terms of the Indenture relating to the Debentures.

Under the terms of the Indenture, upon such default, the Indenture Trustee or the holders of 25% in interest of the outstanding Debentures may accelerate the Debentures and declare the principal and interest due thereon immediately due and payable. Although as of the filing of this Report no notice of acceleration has been received by the Company, in the event of such acceleration, the Company can, upon the consent of a majority in interest of the outstanding Debentures, cure such default by paying the interest currently due together with any expenses of the trustee arising from the acceleration. In the event the Company is unable to cure such default, the trustee may, under the terms of the Indenture, institute judicial proceedings against the Company to collect the amounts due under the Debentures. Such collections may be made against any of the assets of the Company.

During fiscal 1990, the Company was able to improve its working capital deficit and achieve profitability. This was largely due to extaordinary items such as the repurchase of the debentures. The Company repurchased 109 debentures with an outstanding value of $109,000 plus accrued interest of $65,025.00 which created a $174,025 gain.
Sales for the period increased at a higher rate than cost of sales and general and administrative costs. The loss from operations of the business was significantly less than the prior fiscal year. It is anticipated that the Company will continue to have difficulty meeting its short and long-term capital needs without sustained growth and better financing.

During fiscal 1989, the Company was able to improve its working capital deficit and achieve profitability. This was due also to the repurchase of the debentures which accounted for $360,290 gain. It is anticipated that the Company will continue to have extreme difficulty meeting its short and long-term capital needs in the absence of continued profitability of its operations or the availability of additional financing upon terms which are more favorable to the Company than those which it has been able to secure to date.

As of January 31, 1990, the Company's current liabilities exceeded its current assets by $218,850. This deficit in working capital resulted because the Company's primary source of cash is cash flow from operations, which has been insufficient to meet the Company's current expenses and obligations. The Company subsequently secured new financing providing operating funds at improved interest rates.

Result of Operations

The Company's total revenues for fiscal 1990 increased by approximately 14.5% to $3,086,934 from revenues of $2,697,172 in fiscal 1989 and 21.0% over 1988 revenues of $2,228,121. The increase in revenues for fiscal 1990 was related to market expansion and increased marketing efforts. however, the Company's continuing inability to purchase raw materials in sufficient quantities to keep pace with customer orders continues to hinder sales growth and is anticipated to continue to be a problem in the near future until the Company is able to increase its working capital through more consistently profitable operations. In the event that the Company is unable to continue to improve cash flow, it will be unable to maintain its present operations or continue its business as a going concern.

Costs of sales expressed as a percent of sales revenues averaged approximately 73.1% in fiscal 1990 and 79.9% in fiscal 1989. During the last five years, the cost of sales has averaged 74%. The 5% increased experienced in 1989 was primarily attributable to increased labor costs due to overtime, higher packaging costs from government work and write-off of obsolete plates and masters.

Selling, general and administrative expenses increased by approximately 5.8% (as a percent of current year's sales) during 1990. The most significant increases were wages, bad debts and interet expense. The increases were partially offset by decreases to professional fees. The increase to interest was primarily due to larger borrowings. Selling, general and administrative expenses remained constant (as a percent of current year's sales) during 1989.

## Effects of Inflation

Inflation has caused increases in all major categories of costs and expenses. To help offset this trend, the Company is increasing productivity by the use of more efficient manufacturing equipment and by reducing the costs of its products through international procurement of raw materials in larger, more economical quantities.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

Moe's To Go Company and Moe's To Go Company Money Purchase Pension Plan v. Tape Specialty, Inc. et. al, California Superior court, for the County of Butte, Case No. 9249. The plaintiffs contend that the Company and its officers committed fraud and negligence in causing the plaintiffs to purchase the Company's debentures, in the amount of $15,000. Plaintiffs further contend that the Company failed to make bi-annual interest payments after October 31, 1983. A motion for Change of Venue has been filed on behalf of the Company, in response to that complaint, and plaintiffs' counsel has requested several court continuances to permit plaintiffs to consider whether to dismiss the suit as to the Company. Plaintiffs have amended the complaint to add Doe defendants who are certain individuals whom plaintiffs contend are investment brokers who sold the investment to plaintiffs. One such additional defendant, Mr. David Lackey, ha filed an answer to the complaint denying the material allegations thereof and has filed a cross-complaint for indemnification against the Company. Counsel for Mr. Lackey withdrew from representation at the beginning of 1988 and no new counsel has been retained. The case has been dormant. The Company is, in fact, in breach of the trust indenture pursuant to which the debentures were issued, by failing to pay the interest required thereby. As of the date of this report the case has been settle in favor of Tape Specialty, Inc.

Singer Associates, Inc. v. Tape Specialty, Inc., Los Angeles Superior Court, Case No. NWC 026 692. The plaintiff is seeking damages for breach of contract and common counts, alleging that it was due $71,815.32 plus interest at the rate of 10% per annum from August 27, 1984. This August date is allegedly the point at which the Company began failing to make payments to plaintiff under a employment contract. An employee of the plaintiff (Alvin Singer) is a former President and current shareholder of the Company. The Company contends that the Plaintiff's rights under the employment contract were waived upon Mr. Singer's resignation as President on November 21, 1983, and that all compensation earned to that date has been paid by the Company. On August 17, 1989 the law suit was settled for $43,500. As of January 31, 1989 the financial statements included approximately $65,00 of accrued liabilities to Mr. Singer.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities.

The Company is presently in default in the payment of interest in the aggregate of $168,000 on its outstanding Convertible Subordinated Debentures. The interest amounts were payable semi-annually from April 30, 1984 through April 30, 1989. The Company's failure to pay such interest amounts constitutes a default under the terms of the Indenture relating to the Debentures.

Under the terms of the Indenture, upon such default the Indenture trustee or the holders of 25% in interest of the outstanding Debentures have the right to accelerate the Debentures and declare the principal and accrued interest on the Debentures immediately due and payable. Although as of the filing of this report, no notice of acceleration has been received by the Company, in the event of such acceleration the Company can, upon the consent of a majority in interest of the outstanding Debentures, cure such default by paying the interest currently due together with any expenses of the trustee arising from the acceleration. In the event the Company is unable to cure such default, the trustee may, under the terms of the Indenture, institute judicial proceedings against the Company to collect the amounts due under the Debentures. Such collection may be made against any of the assets of the Company.

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable

Item 5. Other Information.

Mr. Leonard Feldman passed away February 1989. He served as Chairman of the Board of the Company, Vice President Marketing, Treasurer and as a Director since the Company's organization in 1976. From August 1971 to April 1976, Mr. Feldman was Vice President-Production Management and Marketing for Magnetic Tape Engineering Corporation, North Hollywood, California where he was responsible for national sales distribution and marketing. While in the employ of such company Mr. Feldman was in charge of advertising ad pricing policies, national media promotion, marketing research, public relations and the development of new product concepts. From January 1969 to August 1971, Mr. eldman was Corporate Operations Manager, a member of the Executive Corporate Planning Committee and General Manager of the Recording and Duplicating Division of Superscope Inc., Sun Valley, California; a company engaged in the business of tape duplicating. In those positions, Mr. Feldman was

responsible for the supervision of administrative activities including sales and marketing activities for domestic and foreign operations, product development, advertising and promotion. Mr. Feldman graduated from the Univesity of Wisconsin, Madison (B.S., Industrial Management). Leonard Feldman was the father of Steven Feldman.

As of March 1989, Bernice Feldman replaced Leonard Feldman as Chairman of the Board of Directors. At this time a third member was added to the Board of Directors. Prior to this time, the Board was composed of only two members.

The information set forth herein reflects all adjustments which was in the opinion of management, necessary to a fair statement of the results for the period shown.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAPE SPECIALTY, INC.

Dated: 2/25/92

By: Steven H Feldman
Steven H. Feldman
President

| SIGNATURE | TITLE | DATE |
|---|---|---|
| Steven H Feldman<br>Steven H. Feldman | President, Chief Executive Officer and Director (Principal Executive Officer) | Oct. 31 1991 |
| Bernice Feldman<br>Bernice Feldman | Chairman of the Board | Oct. 31 1991 |